

STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF EXAMINATION
OF

GREAT WESTERN INSURANCE COMPANY
OF

OGDEN, UTAH

AS OF

DECEMBER 31, 1999



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March 23, 2001

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, N.A.I.C.
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Bob Lohr, Director
Secretary, Western Zone, N.A.I.C.
Alaska Division of Insurance
3601 C Street, Suite 1324
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Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with the insurance laws of the State of Utah, an examination of the financial condition and business affairs of

GREAT WESTERN INSURANCE COMPANY

of
Ogden, Utah

a stock life insurance company, hereinafter referred to as the Company, was conducted as of December 31, 1999.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was made as of December 31, 1996. The current examination covers the period from January 1, 1997, through December 31, 1999, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination. The current examination was conducted under the association plan of the National Association of Insurance Commissioners (NAIC) with the State of Utah Department of Insurance (Department) representing the Western Zone, Zone IV. All other zones waived participation.

Examination Procedure Employed

All phases of the examination were conducted to determine compliance with generally accepted regulatory standards and procedures in conformity with Utah Code Annotated (U.C.A.) and Utah Administrative Code (U.A.C.). The examination included a general review and analysis of the Company's operations and the manner in which its business was conducted. In addition, assets were verified and valued, liabilities were determined or estimated, accounting records were tested and a determination of its financial condition as of December 31, 1999, was performed.

The Company retained the services of a certified public accounting firm to audit its financial records for the years under examination. The firm allowed the examiners access and provided copies of requested working papers prepared in connection with its audits. The use of the firm's working papers did not significantly affect the nature and extent of examination procedures performed.

The examiners relied on the findings of an actuarial firm contracted by the Department to verify life insurance premiums and annuity considerations deferred and uncollected, aggregate reserve for life policies and contracts, policyholder dividends, and premium and annuity considerations received in advance. Examiners were responsible for testing the completeness of the records provided to the firm and the accuracy of the underlying data used to establish account values.

A letter of representation, certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the examination working papers.

Status of Prior Examination Findings

The previous examination, performed by the Department as of December 31, 1996, reduced the Company's reported surplus by approximately \$227,624. The reduction resulted primarily from an increase in the asset valuation reserve of \$207,693. Important points and recommendations noted in the prior examination report have been addressed by the Company or have received further comment in this report.

HISTORY

General

The Company was incorporated as a stock life insurance company under the laws of the State of Utah on March 1, 1983. On April 26, 1983, the State of Utah issued the Company a Certificate of Authority to write life and disability insurance. The articles of incorporation provide for a perpetual corporate existence.

In May 1989, the Company's parent corporation, Lindquist & Sons, sold 50 percent interest of the Company to Desert Lawn, Inc., of Las Vegas, Nevada. On December 17, 1992, the remaining shares owned by Lindquist & Sons were sold to JAMEL Ltd., an affiliated organization. On March 18, 1996, Desert Lawn, Inc., and Palm Memorial Estate Plans, Inc. merged to form Palm Mortuary, Inc. As of December 31, 1999, 50 percent of the outstanding shares of the Company were owned by JAMEL Ltd., a non-insurance Utah Limited Partnership and 50 percent by Palm Mortuary, Inc., a non-insurance Nevada Corporation.

In December 1998, the Company purchased a small inactive company, Great Western Life Insurance Company (GWLIC), domiciled in the State of Montana.

Capital Stock

The Company had 200,000 shares of authorized and outstanding capital stock with a par value of \$12.50 per share. As of December 31, 1999, controlling interest was shared equally between two shareholders, JAMEL Ltd., a Utah Limited Partnership and Palm Mortuary, Inc., a Nevada Corporation.

Dividends to Stockholders

No dividends were declared or paid during the examination period.

Management

The following individuals were serving as directors of the Company on December 31, 1999:

<u>Name and Residence</u>	<u>Principal Business Affiliations</u>
Kenneth Knauss Las Vegas, Nevada	President and Chief Executive Officer Palm Mortuary, Inc.
Roger Lee Kreml Las Vegas, Nevada	Vice President and Secretary, Palm Mortuary, Inc.
John Aaron, Lindquist Ogden, Utah	Chairman, Great Western Insurance Company
John Ellis Lindquist Ogden, Utah	President, Great Western Insurance Company
Fred LeRoy Meese Layton, Utah	Secretary/Treasurer, Great Western Insurance Company

Officers serving at December 31, 1999, were as follows:

<u>Name</u>	<u>Title</u>
John Ellis Lindquist	President
Kenneth Knauss	Vice President
Fred Leroy Meese	Secretary/Treasurer

At December 31, 1999, the Company had active executive and audit committees. Members were as follows:

<u>Executive Committee</u>	<u>Audit Committee</u>
Ken Knauss	Ken Knauss
John E. Lindquist	John E. Lindquist
Fred L. Meese	

Conflict of Interest Procedure

All Company officers, directors and key personnel completed conflict of interest statements as of February 22, 1999. The period of time covered was for one year. Additional statements were executed at the annual meeting held on February 22, 2000, for the preceding year.

Corporate Records

The minutes of the directors, shareholders and committee meetings were reviewed. The Company's bylaws, Article 5, requires that the board of directors designate by appointment, from among its members, an audit and executive committee.

For the period under examination, the Company did not evidence audit committee minutes. Also, the board minutes did not disclose the appointment of executive and audit committee members.

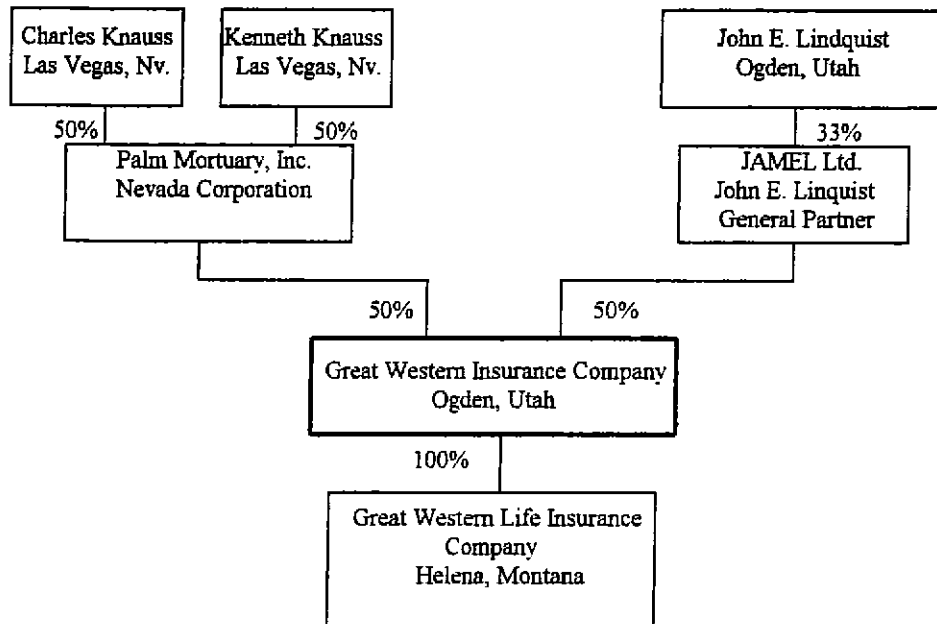
In addition, the Company's annual statement general interrogatories item 23 indicated that the Company kept a complete permanent record of proceedings of all subordinate committees.

It is recommended that the Company disclose in the board minutes, the appointment of executive and audit committee members and maintain audit committee minutes.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined under U.C.A. §31A-1-301(61). As of December 31, 1999, the ultimate control of the Company was shared jointly with three individuals. None of these entities or individuals prepared audited financial statements. The Company has received permission from the Utah Insurance Department for the Form B to be filed with unaudited financial statements.

The organizational chart reflects the holding company's direct control as follows:



On January 2, 1999, the Company entered into an administrative services agreement with GWLIC. Under the agreement, the Company agrees to provide administrative services relative to the operation of its insurance business including general accounting services and investment management services.

The Company did not notify the Department of its intent to enter into an administrative services agreement as required by U.C.A. § 31A-16-106(1)(b). This subsection states that a domestic insurer may not enter into a service contract with any person in its holding company system unless the insurer has notified the commissioner in writing of its intention to enter into the transaction at least 30 days prior to entering into the transaction. During the examination, the Company notified the Department by filing this agreement on November 29, 2000.

The Company maintains a lease agreement on furniture and office space located at its home office with Knauss & Linquist Enterprises, LLC, an affiliate of JAMEL Ltd., and Palm Mortuary Inc.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested in the NAIC Examiners Handbook for a company of the Company's size and premium volume is not less than \$600,000. At the examination date, the Company had such coverage in effect subject to any one occurrence limit of \$600,000 with a deductible of \$10,000.

The Company was also a named insured under two other policies. One policy provided business automotive commercial general liability and excess liability coverage and the other policy covered employee dishonesty acts.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's pension and profit-sharing plan and insurance plans consisted of participation in programs underwritten by National Benefit Services and United Health Care. Participation in these programs was optional for employees. The pension and profit-sharing plan allowed eligible employees to contribute up to 15% of their regular wages. The Company matches any contribution by up to 5% which is made annually based on the profitability of the Company.

The insurance programs consisted of Health, Dental, Long Term Disability and Life Insurance. Provision was made in the financial statement for company obligations under these plans.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company was required to maintain a deposit in an amount equal to its minimum capital requirement. The Company's minimum capital requirement was \$400,000 at December 31, 1999. Deposits maintained by the Company at December 31, 1999, were as follows:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>
Arkansas	AT&T Corp. Notes	\$ 250,000	\$ 255,000
Nevada	Merrill Lynch Corp. Notes	100,000	102,000
New Mexico	Farm Credit Fin. Asst.	100,000	108,000
Utah	U.S. Treasury Bonds	<u>5,250,000</u>	<u>5,662,500</u>
Totals		<u>\$5,700,000</u>	<u>\$6,127,500</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

During the period covered by the examination, the Company derived most of its premium revenue from the sale of whole life insurance policies designed to provide increasing benefit, funeral insurance. Plans offered include single premium, 1 year, 3 year, 5 year and 10 year paid up policies. Most policies were participating, and some were guaranteed issue.

The Company retains the full amount of risk on each insurance policy it issues. The face amount of policies issued, are equivalent to final funeral costs. Policies are presently written in amounts up to \$20,000.

The underwriting consists of field underwriting performed by the agent who determines whether a policy will be issued as a guaranteed issue or a first day benefit policy. The guaranteed issue policy provides benefit restrictions for the first two years. After the second year, both policies have the same benefit.

Premium earned from the Company's insurance products in 1999, by line and type of business was as follows:

Life:	
Ordinary	\$ 8,818,686
Group	26,359,501
Credit	<u>38,199</u>
Total	<u>\$ 35,216,386</u>

Territory and Plan of Operation

The Company was licensed to transact the business of life and accident and health insurance in the following 30 states as of December 31, 1999:

Alabama	Idaho	Minnesota	North Dakota	Tennessee
Arizona	Illinois	Missouri	Ohio	Texas
Arkansas	Iowa	Montana	Oklahoma	Utah
California	Kansas	Nebraska	Oregon	Washington
Colorado	Louisiana	Nevada	Pennsylvania	Wisconsin
Florida	Michigan	New Mexico	South Dakota	Wyoming

Premium was written in 22 of these states with the most direct premium concentrated as noted:

State:	
Utah	\$ 5,888,259
Arizona	5,574,717
Nevada	4,542,376
Minnesota	3,705,551
California	<u>3,553,901</u>
Subtotal	\$23,264,804
All other	<u>11,595,569</u>
Total Direct	
Business	<u>\$34,424,373</u>

As of December 31, 1999, the Company marketed its products under a general agency plan. A home office sales staff is maintained to service existing general agents and solicit additional general agents as determined by the marketing department.

Advertising and Sales Material

The Company markets its pre-need funeral insurance products through general agents and agents associated with funeral homes. The Company does not conduct an extensive advertising program to the general public. Most advertising consisted of a brochure and pamphlet containing general information. In addition, the Company maintains a web site, "www.gwic.com" with information on products and services. These items were reviewed and determined acceptable for examination purposes.

Treatment of Policyholders

There were two complaints filed with the Utah Insurance Department during the examination period. Of the two complaints, both were determined to be justified and resolved.

REINSURANCE

The Company neither maintained, nor entered into any reinsurance arrangements during the examination period.

ACCOUNTS AND RECORDS

The Company's accounting system was maintained on an accrual basis and consisted of a general ledger, sub-ledgers, journal registers and other computerized

reports created from source documents. The Company utilized various commercial software packages to maintain its accounting and policyholder information.

An examination trial balance, as of December 31, 1999, was prepared from the Company's computerized general ledger. Account balances were traced to annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

The Company's 1999 Annual Statement Schedule D, reported discrepancies. Bond securities CUSIP numbers, par values, interest rates, market rates and maturity dates did not match the custodial confirmation. In addition, common stock market values did not reconcile to the custodial confirmation.

During the examination, the Company was able to provide a reconciliation of these securities, however, it is recommended that the Company revise its procedures for reconciling investment ledgers to custodial listings and accurately report these in the annual statement.

U.C.A. § 31A-4-113 requires each authorized insurer to file a true a statement of its financial condition and affairs as of December 31 of the preceding year in accordance with the annual statement instructions and the Accounting Practices and Procedures Manual published by the NAIC. The statement is not considered filed unless the information therein is complete and accurate.

FINANCIAL STATEMENT

The financial statements listed below are presented immediately following this report.

Balance Sheet as of December 31, 1999

Summary of Operations for the Year Ended December 31, 1999

Capital and Surplus Account for the Years Ended 1997, 1998 and 1999

The Comments on Financial Statement immediately following the financial statements are an integral part of the statements.

**Balance Sheet
as of December 31, 1999**

ASSETS

	<u>Amount</u>	<u>Comments</u>
Bonds	\$ 96,053,077	(1)
Common stocks	4,451,020	(2)
Mortgage loans on real estate	660,124	
Policy loans	86,390	
Cash and short-term investments	(282,557)	(3)
Electronic data processing equipment	14,889	
Life insurance premiums and annuity considerations deferred and uncollected	2,846,749	
Investment income due and accrued	1,582,975	
TOTAL ASSETS	<u><u>\$ 105,412,667</u></u>	

LIABILITIES

Aggregate reserve for life policies and contracts	\$ 88,227,337	
Policy and contract claims – Life	760,805	
Provision for policyholders' dividends and coupons payable in the following calendar year: Dividends apportioned for payment	1,558,582	
Premiums and annuity considerations received in advance	138,566	
Interest maintenance reserve	213,729	
Commissions to agents due or accrued	98,558	
General expenses due or accrued	473,180	(5)
Taxes, licenses and fees due or accrued, excluding federal income taxes	280,118	
Federal income taxes due or accrued	14,437	(6)
Unearned investment income	3,516	
Amounts withheld or retained by company as agent or trustee	14,922	
Amounts held for agents' account	92,683	
Remittances and items not allocated	110,528	
Asset valuation reserve	1,082,658	
TOTAL LIABILITIES	<u><u>\$ 93,069,619</u></u>	
Common capital stock	\$ 2,500,000	
Gross paid in and contributed surplus	4,000,000	
Unassigned funds (surplus)	5,843,048	
TOTAL CAPITAL AND SURPLUS	<u><u>\$ 12,343,048</u></u>	(7)
TOTAL LIABILITIES, CAPITAL, AND SURPLUS	<u><u>\$ 105,412,667</u></u>	

**Summary of Operations
for the Year Ended December 31, 1999**

	<u>Amount</u>	<u>Comments</u>
Premiums and annuity considerations	\$ 35,216,386	
Net investment income	6,073,341	
Amortization of Interest Maintenance Reserve	34,847	
Total	<u>\$ 41,324,574</u>	
Death benefits	10,109,558	
Surrender benefits and other fund withdrawals	204,847	
Increase in aggregate reserves for life and accident and health policies	16,503,493	
Total	<u>\$ 26,817,898</u>	
Commissions on premiums and annuity considerations	5,764,103	
General insurance expenses	3,168,461	(5)
Insurance taxes, licenses and fees, excluding federal income taxes	957,016	
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	521,564	
Total	<u>\$ 37,229,042</u>	
Net gain from operations before dividends to policyholders and federal income taxes	4,095,532	
Dividends to policyholders	<u>2,210,833</u>	
Net gain from operations after dividends to policyholders and before federal income taxes	1,884,699	
Federal income taxes incurred	<u>427,045</u>	(6)
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	1,457,654	
Net realized capital gains or (losses) less capital gains tax transferred to the IMR	<u>(3,470)</u>	
Net income	<u><u>\$ 1,454,184</u></u>	

**Capital and Surplus Account
for the Years Ended 1997, 1998 and 1999**

	1997	1998	Per Examination 1999
Capital and surplus December 31, prior year	<u>\$ 7,203,784</u>	<u>\$ 9,495,604</u>	<u>\$ 11,283,621</u>
Net income	2,174,838	2,771,500	1,454,184
Change in net unrealized capital gains or (losses)	339,427	(543,447)	373,543
Change in nonadmitted assets and related items	(70,988)	(366,918)	(440,838)
Change in asset valuation reserve	(151,457)	(73,118)	(327,462)
Surplus adjustment: Paid in			4,000,000
Transfer unassigned surplus to paid in surplus			(4,000,000)
Net change in surplus for the year	<u>\$ 2,291,820</u>	<u>\$ 1,788,017</u>	<u>\$ 1,059,427</u>
Capital and surplus December 31, current year	<u><u>\$ 9,495,604</u></u>	<u><u>\$ 11,283,621</u></u>	<u><u>\$ 12,343,048</u></u>

COMMENTS ON FINANCIAL STATEMENT

(1) Bonds

\$96,053,077

As of December 31, 1999, the Company was not in compliance with U.C.A. §31A-4-108 and U.A.C. §R590-178, regarding its custodial agreement. However, during the examination the Company amended its custodial agreement to be in compliance.

Two bonds noted as collateralized mortgage obligations, with statement values of \$480,882 and \$925,226, owned by the Company on December 31, 1999, were not published by the Securities Valuation Office of the NAIC. However, during the examination the Company filed the two bonds with the Securities Valuation Office.

(2) Common stocks

\$4,451,020

The Company's reported amount did not reflect the actual market value. As a result, the examination determined that common stock was understated by \$41,204.

(3) Cash and short-term investments

\$(282,557)

As of December 31, 1999, the Company was not in compliance with U.C.A. §31A-4-108 and U.A.C. §R590-178-4 regarding its custodial agreement on a cash sweep account. However, during the examination the Company amended its custodial agreement to be in compliance.

(4) Receivable from parent, subsidiaries and affiliates

\$ 0

The reported amount, \$7,500, was not admitted pursuant to U.C.A. § 31A-17-201(2).

(5) General Expenses due or accrued

\$473,180

As of December 31, 1999, the Company maintained an employment agreement with the chief marketing officer which included a severance package. The Company did not accrue a liability in the amount of \$80,000. The liability was increased pursuant to U.A.C. §R590-117.4.

(6) Federal income taxes due or accrued

\$ 14,437

The reported amount of federal income tax recoverable at December 31, 1999, was \$116,626. This amount was not allowed since the Company filed an amended tax return in 2000 reflecting a federal tax liability of \$14,437 as of 1999.

(7) Capital and Surplus**\$12,357,485**

The Company's capital and surplus was determined to be \$177,359 less than reported. The following schedule identifies examination changes:

Description	Annual Statement <u>Dr (Cr)</u>	Per <u>Examination</u>	Change in Surplus <u>Inc. (Dec.)</u>	<u>Notes</u>
Common stocks	\$ 4,409,816	\$ 4,451,020	\$ 41,204	(2)
Federal income tax recoverable	116,626	0	(116,626)	(6)
Federal income taxes due or accrued	0	14,437	(14,437)	(6)
Receivable from parent	7,500	0	(7,500)	(4)
General expenses due or accrued	(393,179)	(473,180)	(80,000)	(5)
Total Changes			(177,359)	
Capital and surplus per Company			<u>\$12,520,407</u>	
Capital and surplus per Examination			<u>\$12,343,048</u>	

U.C.A. § 31A-5-211 requires the Company to maintain minimum capital in the amount of \$400,000. In accordance with U.C.A. 31A-17 Part VI, the Company reported total adjusted capital in the amount of \$14,386,606 and its authorized control level RBC in the amount of \$1,474,061. The examination determined total adjusted capital to be \$14,209,247 and authorized control level RBC to be \$1,480,237.

SUMMARY COMMENTS AND RECOMMENDATIONS

Items of significance or special interest contained in this report are summarized below:

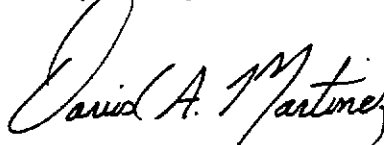
1. The board minutes did not disclose the appointment of executive and audit committee members and did not evidence maintenance of audit committee minutes. It is recommended that the Company disclose in the minutes, the appointment of these committee members and maintain audit committee minutes. (History – Corporate Records)
2. The Company did not notify the Department of its intent to enter into an administrative services agreement as required by U.C.A. § 31A-16-106(1)(b). During the examination, the Company notified the Department by filing this agreement on November 29, 2000. (Affiliated Companies)
3. The bond securities CUSIP numbers and other bond securities valuation attributes did not match. Common stock market values did not reconcile to the custodial confirmation. It is recommended that the Company revise its procedures for reconciling investment ledgers to custodial listings. (Accounts and Records)
4. As of December 31, 1999, the Company was not in compliance with U.C.A. §31A-4-108 and U.A.C. § R590-178-4 regarding two custodial agreements on securities and a cash sweep account. However, during the examination the Company amended both custodial agreements to be in compliance. (Comments on Financial Statement – Notes 1 and 3, Bonds, Cash and short-term investments)
5. The receivable from parent, subsidiaries and affiliates was not admitted pursuant to U.C.A. § 31A-17-201(2). It is recommend that the Company properly report this account. (Comments on Financial Statement – Note 4, Receivable from parent, subsidiaries and affiliates)
6. The Company maintained an employment agreement which included a severance package. The Company did not accrue a liability of \$80,000. The liability was increased for examination purposes, pursuant to U.A.C. §R590-117.4. It is recommended that the Company accrue for this liability in future reporting periods. (Comments on Financial Statement – Note 5, General Expenses due and accrued)

7. Total capital and surplus of this report is \$177,359 less than reported in the Company's annual statement. However, the Company's capital and surplus of \$12,343,048 substantially exceeds both the minimum capital required by U.C.A. §31A-5-211 and the Risk-Based Capital requirements of U.C.A. 31A-17 Part VI. (Comments to Financial Statement – Note 7, Capital and Surplus)

CONCLUSION

Assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company are acknowledged. In addition to the undersigned, Mr. Thomas Burger of Taylor-Walker & Associates, conducted the actuarial phases of the examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "David A. Martinez".

David A. Martinez, CFE
Examiner-in-charge, representing the
Utah Insurance Department